Remarks by Director Glenn L. McCullough, Jr.
Tennessee Valley Authority
at the Financial Analyst and Investor Meeting
March 23, 2001 — New York, New York

INTRODUCTION

M-1: Title Chart

TVA is in solid shape today—both financially and operationally—but we have to get even better.

In the future, we will focus our attention, and our resources, on the corporation's core businesses of electric power generation, transmission, and river management.

We must do four things to ensure TVA's future success:

- **improve our generation and transmission performance**
- **set the standard for running the river system**
- **reduce our delivered cost of power relative to the market**
- **and reduce our overall level of debt.**

I. GENERATION AND TRANSMISSION

M-2: Objectives for the Future – 1

First, TVA must continue to improve generation and transmission performance.

As Craven mentioned, TVA's power system has demonstrated exceptional performance over the past few years.

But meeting demand is becoming more challenging each year.

M-3: Annual Sales Growth

The strong economic growth experienced in the 1990's has translated into increased demand for electricity across the nation.

The southeastern United States alone could require as much as 80,000 megawatts of additional capacity within the next 12 years.

At TVA, power sales have increased an average of 3 percent annually during the past decade – which is almost half again faster than the nation as a whole.

In addition, customer requirements are becoming more stringent.

Today, one third of the nation's electric load is controlled through electronic equipment, and it's projected to increase to half by 2005.

With computer automation and robotics, service interruptions of less than 1/3 of a second cause problems for consumers.

M-4: Improved Generation and Transmission

During the past six years, TVA has added 3,500 megawatts of generation, and upgraded the capacity and reliability of our transmission system.

We've added 700 miles of new lines and 138 new customer delivery points to serve increased demand.

This helped us meet five new summer peaks last year and supply 100 percent of our firm load without resorting to customer interruptions or public appeals to reduce consumption.

In fact, the TVA system is operating at 99.999 percent—that's five nines--reliability.

M-5: Regenesys Sketch

So how will we improve on an outstanding record of performance?

Innovation is the key.

Last November, we approved the construction of a first-of-its-kind power plant in the U.S.

This new plant will use storage technology known as "Regenesys" to store electricity during periods of low demand and transmit it during times of peak demand.

"Regenesys" was named the "Most Promising Pre-Commercial Technology" by the Financial Energy Times last fall.

We're also making progress on completing our hydro modernization program, which will provide more than 700 megawatts of additional "storage" capacity.

M-6: Public Power Institute

In 1999, TVA established the Public Power Institute, which is designed to serve TVA and the broader energy community.

It serves as a forum for achieving advancements in energy production and delivery and improving end-use energy efficiency.

It will also address the national issues of increasing the renewable energy supply, improving the efficiency of energy use and production, and air quality.

II. RIVER MANAGEMENT

M-7: TVA'S OBJECTIVES FOR THE FUTURE—1 & 2

The second objective for TVA's future is to set the standard for managing the nation's fifth largest river system.

Addressing competing demands on the Tennessee River System is vital to protect the region's natural resources and support sustainable development.

TVA intends to set the national standard for river system management that balances the multiple benefits of navigation, flood control, power supply, land use, water quality and recreation.

M-8: SO2 COMPARED TO GENERATION

Environmental responsibility will continue to be a priority.

We have invested more than $2.6 billion in emissions control equipment at our 11 coal-fired plants since the mid-1970's, and it's paying off.

Since 1976, sulfur dioxide emissions have been reduced by 65 percent, while our coal-fired units have produced 25 percent more electricity during the same period.

Nitrous oxide emissions are down 33 percent since 1995.

In addition, we have significantly reduced the rate of carbon dioxide emissions per megawatt hour since 1988.

We achieved the C02 reductions through a combination of improving the efficiency and capacity of our hydro plants, co-firing bio-mass with coal in some of our fossil units, bringing Browns Ferry and Watts Bar Nuclear Plants on line, and improving the efficiency of our fossil system.

III. REDUCE THE DELIVERED COST OF POWER

M-9: TVA'S OBJECTIVES FOR THE FUTURE — 1, 2, & 3

Now, I would like to discuss our third objective, which is: to reduce TVA's delivered cost of power relative to the market.

I use the phrase "relative to the market" because everyone in the industry is affected by the impacts of increased fuel costs and environmental costs.

But even with costs going up, TVA has implemented only one rate increase during the past 13 years.

We are currently conducting a study of our long-term power supply needs to determine how to best meet future growth and environmental responsibilities within the objectives outlined in our original Ten-Year Business Outlook.

The study will consider various TVA-built options, partial requirements contracts with distributors, merchant plant activity, purchased power options, and other factors related to identifying the best energy choices for the future.

M-10: BUSINESS OUTLOOK OBJECTIVES

This review will provide the information needed to update the Ten-year Business Outlook.

The primary objectives of the original Business Outlook — to maintain a competitive price of power . . . to attain a more flexible cost structure . . . and to build customer allegiance and satisfaction – certainly remain valid today.

But our world has changed considerably since 1997, and the strategies needed to meet those objectives must change as well.

M-11: CHANGED CONDITIONS

Since we adopted the plan, our nation's power supply has failed to keep pace with demand . . . the transmission infrastructure needed to move electricity from one utility to another is coming under increasing stress . . . environmental quality expectations have increased . . . and the price of natural gas — the fuel used in most new electric generation — has escalated rapidly.

Record-breaking summer peak demands have shown that we cannot rely on surplus power purchased from others.

Even when electricity is available on the open market, it's often very costly or there is no transmission capacity available to move it.

While the key objectives of the Business Outlook will remain the same, we know we must adopt new strategies that will enable us to keep the lights on at a price that doesn't stifle regional economic growth – now or in the future.

IV. DEBT REDUCTION

M-12: OBJECTIVES FOR THE FUTURE — ALL 4

One strategy that will remain constant, however, and that is our fourth objective: to continue to reduce the level of debt.

We have made good progress on reducing debt and interest costs, which has given us a more flexible cost structure—and you'll hear more about this from David Smith.

CONCLUSION

In conclusion, we will continue to improve our generation and transmission performance . . . set the standard for managing the river system . . . reduce our delivered cost of power relative to the market . . . and reduce our debt.

We are committed to make sound business decisions that justify your confidence, and the confidence of the people of the Tennessee Valley.

Thank you.

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